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Financial Solutions for the Life You Are Living and the One You Want to Live

financial $UCCESS

WINTER 2020

Happy New Year 2020!

Year 2019 was a pleasant surprise on both the equity and fixed income fronts. Stocks and bonds had a terrific year, by most accounts. It is seldom that so many sectors do well at the same time. This year, we had positives, in so many sectors; small caps, mid-caps, large caps, international, Real Estate Investment Trusts (REITS), taxable bonds, and tax-free (municipal bonds). In some cases, bond funds yielded double digit total returns (yield & capital appreciation). This can be attributed to the lower interest rates driven by the FED. This time last year, most of us believed rates would rise in year 2019. Lower interest rates are what drives growth; this is irrespective of decisions made by the current administration or current congress. Financial markets do not like uncertainty, which is what we had temporarily, at this time last year. It now appears the tariff wars are at a pause and the Brexit is now going to happen at the end of January 2020. While business investment has slowed in Year 2019, the domestic and international consumers have come to the rescue and aided global GDP. More people are traveling than ever before, especially from the developing world. Something I have stated before, developing markets are becoming maturing markets, which is also creating growth worldwide.

Again, on the market side, it was a terrific year. However, being in the business for 22+ years, it has been difficult as we have lost many long time clients and friends. It is always good to set personal goals; yet this year let that include some family goals. As your Financial Advisors, Polly and I get asked quite often about what is the best investment 'now'? Your *good health* and *decision making* are probably the two best characteristics regarding your financial health *'now'* and *'always'.*

Looking forward to 2020; please continue to plan for tomorrow and live for today!

Sincerely,

Andrew D. Wade, CFP®
President

Fun Ways for the Entire Family to Save

Most people don't think saving money is fun, but there are ways to make it fun for the entire family. Check out these ideas:

Make It a Competition — You and your spouse or two of your teenagers can challenge each other to a "save-off." Set a time frame and a savings metric to determine the winner. Make sure the prize doesn't claim everything you've saved.

Create a Savings Thermometer — This is a great way to save when you have younger children. Let the kids create a large thermometer out of poster board, then write a saving goal at the top and hang it somewhere in the house where everyone can see it.

Have a Family Garage Sale — A great way to clean out your house is for everyone to find clothes, toys, and other household items they no longer use or need. Let your children help run the sale.

Find Inexpensive Family Fun — Not every outing with your kids has to include spending money, especially with younger children. Go to a local park, plant a garden together, or play a family game of baseball or volleyball. ❍❍❍

The 'SECURE Act' Is Signed!

WOW; just like that, a huge piece of retirement legislation was just passed. This will either have an effect on your retirement or your heirs. For the most part, the law is helpful, but like many laws, there are some pitfalls which I will discuss. The SECURE Act was signed into law on December 20, 2019. The law was crafted with the intent to encourage individual retirement savings. While this law should achieve this goal, it will also increase tax revenue.

This law has 29 provisions. We will look at five here that I believe are most important. The first is that the Required Minimum Distributions are now required to start by April 1st of the year you turn Age 72, versus April 1st of the year after you turned 70 ½. Of course, I continue to recommend that you distribute all or most of your charitable giving direct from your IRA versus writing a check out of your non-retirement accounts (age remains at 70 ½ for allowable IRA charitable contributions).

The second provision allows for continued IRA contributions past Age 70 ½. If you have earned income past age 70 ½, you can now continue to contribute to Traditional IRAs. Again, you have to have 'earned' income. This is the critical piece. Some seniors have part time retirement jobs that allow for additional Traditional IRA contributions. Given that for people Age 50 and older, you can contribute $7,000! This is now a substantial savings vehicle and can be a great tax deduction. In the past, you could just contribute to Roth IRAs after Age 70 ½ (still at $7,000).

Thirdly, the Act is encouraging annuities within the 401(k) system. A typical Defined Contribution Plan (401(k)) does not guarantee a nickel no matter the value. You could have $250,000 in your retirement plan, but it won't guarantee a monthly or annual benefit as it is currently set up. By adding an annuity component; you could set up a portion that will pay out 'X' amount of dollars by certain ages. Of course, this can be complicated, and the devil is in the details, as employees switch jobs and benefits come and go.

While I generally like the first three provisions mentioned, the fourth is definitely a huge negative. A non-spouse Beneficiary can no longer take income over their lifetimes. The longest you can stretch the income is 10 years from a Beneficiary Traditional IRA or Roth IRA. The stretch IRA is effectively over; if you pass after this year. The government would rather have the taxes over 10 years, than over 20-30-50 years! This is more money in the coffers of the government. A second part to this is the Roth Beneficiary IRA. This is a strange one, as non-spouse beneficiaries have always been required to take tax-free distributions over their lifetimes, but now the government does NOT like the tax-free dollars accumulating, so beneficiaries are required to empty out the Roth in 10 years too.

The last one is regarding 529s; you can now use 'up to' $10,000 to pay off student loans and also siblings of beneficiaries. This is $10,000 over your lifetime, not annually. This is why it is best to plan for college expenses at birth vs. no plan at all. You could end up in debt to the tune of a mortgage payment(s). I have seen this.

As important details emerge, I will keep you informed!

Sincerely,

Andrew D. Wade, CFP®
President

5 Reasons to Start Saving

If you're interested in getting started with savings or want to save more, here are five reasons to help keep you motivated.

1. You'll Be Prepared for Emergencies — Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. Plus, the more debt you have, the more difficult it is to save. The result? A downward financial spiral that can be difficult to pull yourself out of.

2. You'll Be More Independent — With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge.

3. You'll Be Able to Reach Your Goals — We all have goals. Maybe you simply want to enjoy a comfortable retirement one day. Or perhaps you're dreaming of a second home by the lake, sending your kids to college, or starting your own business. Whatever your dreams, they likely have one thing in common — they probably require some money to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll Be Able to Earn More Money — Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving. Because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll Be Happier — Money isn't the only thing that can make us happy. But there's evidence that *saving* money, even in small amounts, can make us happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to unhappiness. ❍❍❍

The Psychology of Saving

Saving money sounds simple. You set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve what you most want.

But in reality, saving is a little more complicated. Sometimes, our own minds work against us when it comes to setting aside some of the money we earn. A basic understanding of the psychology of saving can help you overcome roadblocks and achieve your goals.

Why It's Hard to Save

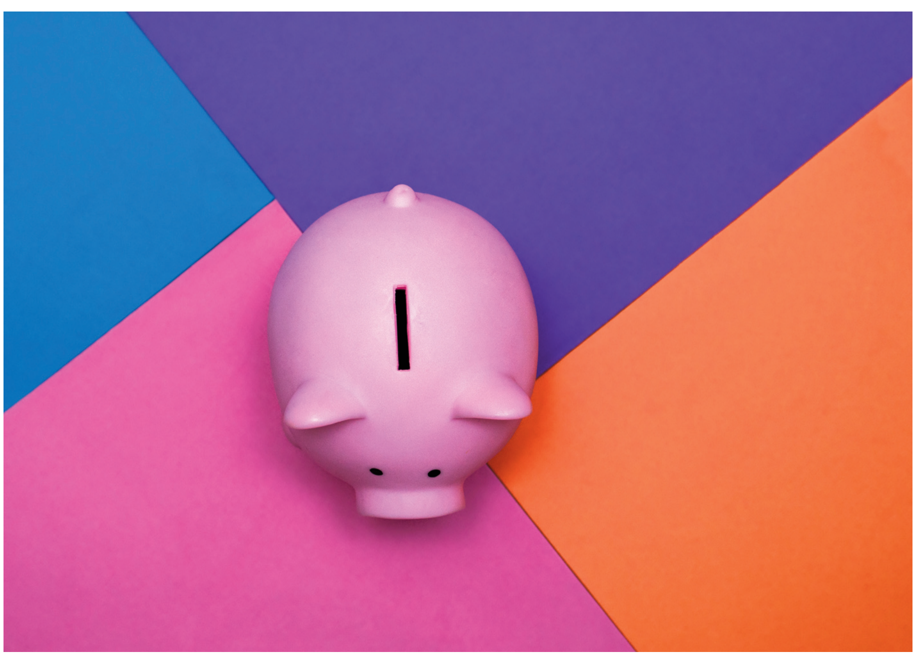
What is one of the biggest obstacles most people face when saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. One study found that most adults would prefer to have $50 today rather than $100 two years from now, for example.

Part of the difficulty with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize saving for the future.

Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self, rather than in terms of their basic self-interest, would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to save more.

In fact, there are a number of studies that suggest changing our mentality might allow us to set aside more money.

A recent study found that people who adopted a cyclical mindset to saving, where they focused on making saving routine in the short term, saved more than people who set more ambitious longer-term goals. Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period. Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.



The Psychological Advantage of Saving

Once you commit to savings, there's a good chance you'll see a psychological boost from doing so. In 2013, a survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account.

That same survey found that 82% of people reported saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences they considered meaningful.

While our mental quirks might make saving difficult, being aware of the obstacles our mind creates can help us conquer them. And that, in turn, may lead to greater savings and increased happiness overall. ❍❍❍

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4 Reasons to Invest in Bonds

Bonds have a reputation as safe, stable investments. But writing off bonds as boring investments that are best for the risk-averse could be a mistake. Here are four reasons why you might want to have a portion of your portfolio in bonds.

1. Bonds are a way to diversify your portfolio. Many financial experts recommend diversifying your portfolio to include a variety of asset classes, including bonds. This is a concept known as asset class diversification. Because different asset classes tend to perform differently at different times, you may be able to create a portfolio that generates more stable returns by investing across asset classes.

2. Bonds are (usually) less risky than equities. If you are looking to dial-down risk in your investment portfolio (such as when you near retirement), increasing your allocation to bonds may be one way to do that. However, keep in mind that less risky doesn't mean risk free.

3. Bonds can provide a steady, predictable source of income. Stocks and other investments are unpredictable — you don't know with any certainty how well a given stock might perform in a certain year. Bonds are a bit different. They are debt investments, which means that you are essentially agreeing to loan an entity, like the government or a corporation, money for a certain period of time. The entity you are lending money to agrees to pay you a certain amount of interest (known as the coupon) over the time they have your money, plus repay your initial investment when the bond reaches maturity. That means that unlike some other investments, you have a pretty good idea of how much money you're going to see from your bond investments.

4. Bonds can provide valuable tax savings. Depending on the types of bonds you own, you may be able to save on taxes. While you'll pay normal taxes on corporate bonds, income from Treasury bonds (which are issued by the U.S. federal government) is free of state and local tax. Then there are municipal bonds, or bonds issued by state and local governments. You won't pay federal tax on money you earn on these investments, and you may also be exempt from state and local tax. For anyone who is looking to minimize their tax burden, especially retirees, this can be an appealing proposition. ❍❍❍

Can You Really Save 50% of Your Income?

It may seem like an extreme money saving idea, but some people can achieve saving half of their after-tax income, making significant financial gains quickly. If this sounds like something you'd like to try, here are a few tips:

Live on One Income — If you and your spouse both work, the easiest way to start is to live on only one person's income. You can first live on the higher of the two incomes while you are adjusting, and then later you can transition to living on the lower income.

Find Ways to Boost Your Income — If you make $100,000 a year, saving half is more achievable, but if you make $25,000, it will be much more difficult. In this case, you'll need to earn more money.

Focus on the Biggest Expenses — For most people, housing, transportation, and food are the largest expenses. You may need to move to a smaller home, which will also save on utilities and maintenance. Another idea is to rent out part of your home. You can save money on transportation by living close to work. To save money on food, you can avoid restaurants, clip coupons, and buy in bulk. ❍❍❍

"At the bottom of education, at the bottom of education, even at the bottom of religion, there must be for our race economic independence."

~ Booker T. Washington

"We all die. The goal isn't to live forever, the goal is to create something that will."

~ Chuck Palahniuk, Diary